

PT 01-70

Tax Type: Property Tax

Issue: Religious Ownership/Use

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE
OFFICE OF ADMINISTRATIVE HEARINGS
SPRINGFIELD, ILLINOIS**

METHODIST SERVICES INC.) A.H. Docket #	00-PT-0055
Applicant) Docket #s	98-90-38 and 98-90-39
) Parcel Index #s	06-06-08-406-023
v.)	06-06-08-406-024
)	
)	Barbara S. Rowe
THE DEPARTMENT OF REVENUE)	Administrative Law Judge
OF THE STATE OF ILLINOIS)	

RECOMMENDATION FOR DISPOSITION

Appearances: Mr. Timothy Howard, Howard and Howard Law Offices, for Methodist Services, Inc.

Synopsis:

The hearing in this matter was held at the Willard Ice Building, 101 West Jefferson Street, Springfield, Illinois on September 20, 2000, to determine whether or not Tazewell County Parcel Index Nos. 06-06-08-406-023 and 06-06-08-406-024 qualified for exemption during the 1998-assessment year.

Mr. Terry Waters, employee of Methodist Services Inc., (hereinafter referred to as the "Applicant") was present and testified on behalf of the applicant.

The issues in this matter include, first, whether the applicant was the owner of the parcels during the 1998-assessment year; secondly, whether the applicant is a charitable organization; and lastly, whether these parcels were used by the applicant for exempt purposes during the 1998-assessment year. After a thorough review of the record and evidence presented, it is recommended that the requested exemption be denied for the 1998-assessment year. In support

thereof, I make the following findings and conclusions in accordance with the requirements of Section 100/10-50 of the Administrative Procedure Act (5 ILCS 100/10-50).

FINDINGS OF FACT:

1. The jurisdiction and position of the Department that Tazewell County Parcel Index Nos. 06-06-08-406-023 and 06-06-08-406-024 did not qualify for a property tax exemption for the 1998-assessment year was established by the admission into evidence of Dept. Ex. No. 1. The Department denied the requested exemptions for the subject parcels because the applicant failed to supply:

- either a financial statement, annual report or both showing income and expenses
- an affidavit describing in detail the exact uses of the property, the frequency of those uses, the portions of the property put to those uses, and the date the use began
- a statement of admission requirements, and charitable policy or bylaws that provide for fees to be waived or adjusted according to one's ability to pay
- a plot plan or drawing showing boundaries of all parcels, each building's location, and the use of all areas of land and building
- a copy of your organization's charter or articles of incorporation that shows the purpose of your organization. A copy of the floor plan or drawing that shows the actual use of all areas of the building, including all floors and basement. A copy of your 501(c)(3) exemption issued to you by the Internal Revenue Service. (Dept. Ex. No. 1; Tr. p. 9)

2. The applicant acquired the subject parcels by a warranty deed dated March 4, 1997. The street address of the properties is North Morton and Courtland in Morton, Illinois. The building on the subject premises is known as Morton Medpointe. In 1998 the building was under construction. It opened in January 1999. The building consists of 19,948 square feet. (Dept. Ex. No. 1; Applicant's Ex. No. 1 p. 50; Tr. p. 14)

3. The applicant owns the subject parcels and leases portions of the building on that property to The Methodist Medical Center of Illinois¹ (hereinafter referred to as the "Methodist Medical Center"). The addendum to the master lease between the applicant and Methodist

¹ The lease states that the tenant is The Methodist Medical Center of Illinois at pages 11 and 12 and The Methodist Medical of Illinois at page 13. (Dept. Ex. No. 1) Methodist Medical Center is the tenant. (Tr. p. 22)

Medical Center shows an area of 10,872 square feet leased to "MMCI-Morton Medpointe" for \$12,684.00 per month; 897 square feet leased to "Methodist Outpatient Therapy Services" for \$1,569.17 per month; and 240 square feet leased to "EEG/sleep lab" for \$280.00 per month. The applicant also leases the physical therapy area of 1,562 square feet to Professional Therapy Services and Methodist Medical Center. The physical therapy area is not at issue. (Dept. Ex. No. 1; Tr. p. 15)

4. Methodist Medical Center is a 336-bed hospital facility located in Peoria, Illinois that provides health care and health services for the community. (Tr. pp. 11-12)

5. Methodist Medical Center operates the leased area on the subject properties as an urgent care and primary care medical center for family practitioners employed by Methodist Medical Center. (Tr. pp. 14, 23)

6. The family practice physicians employed by Methodist Medical Center use the examination rooms to see patients. The sleep center is where two exam rooms are provided for sleep studies. (Tr. p. 23)

7. The applicant submitted a floor plan/drawing of the building on the subject properties. The floor plan shows 20 examination rooms of 99.4 square feet apiece; an X-ray area of 266.4 square feet; an exam/stress test room of 132.2 square feet; and a lab. tech. room of 309.9 square feet. In addition the drawing shows numerous other areas of undetermined square footage. Those sections include areas designated as a drug store; five offices; a staff lounge and toilet; storage; an office manager's area; a physician's alcove; a nursing station; five additional toilets; an audio area; a procedures room; areas entitled janitor, bio-hazard, coats, future mech. rm., elect-water, sub-wait, triage, reception, work, medical records, business manager, peds play, family waiting, and reception. There are also two large areas entitled undeveloped. The shaded area on the drawing is identified as the Therapy Department. The dimensions of that area are not depicted. The sleep center is not identified on the floor plan. The area of the building in use at the time of the hearing was either 12,009 or 12,488 square feet. (Applicant's Ex. No. 1 p. 60; Dept. Ex. No. 1; Tr. p. 20)

8. The applicant was organized under the Illinois Not-For-Profit Corporation Act on November 25, 1981, for the purposes, among others, of owning and operating facilities or owning other assets for public use and welfare, and owning, leasing, or otherwise dealing with all property, real and personal, to be used in the furtherance of the applicant's purposes. (Applicant's Ex. No. 1 p. 5)

9. The applicant is a real estate holding company that owns a large portion of the fixed assets of Methodist Health Services Corporation (hereinafter referred to as "MHSC"). The applicant was formed to help provide a clearer financial picture between the operation of the practices of MHSC and the accounting for the operation of the fixed assets of the buildings. The applicant's purpose is real estate management for MHSC. (Tr. pp. 12-13)

10. The applicant and its lessee, Methodist Medical Center, are not-for-profit corporations that are subsidiaries of MHSC. MHSC is also an Illinois not-for-profit, tax-exempt corporation. MHSC was incorporated to promote and encourage health and human services for the communities it serves. MHSC is the sole member of the applicant. (Applicant's Ex. No. 1 p. 26; Tr. p. 11)

11. The not-for-profit subsidiaries of MHSC include the applicant, Methodist Medical Center, the Methodist Medical Center Foundation (organized to solicit and manage gifts and bequests on behalf of Methodist Medical Center), and Illinois Care, Inc. (sole member is the applicant; provides patient-related and health care management services to other not-for-profit organizations; sold in June 1998). (Applicant's Ex. No. 1 pp. 26-27)

12. The Medically Indigent/Charity Care Guidelines of Methodist Medical Center, applicant's lessee, were revised on October 6, 1998. The guidelines state that the medical center will provide medically indigent/charity care for persons requiring non-elective hospital services. The guidelines used to establish charity care start with the federal poverty guidelines plus \$2,000.00. If a person is unable to pay the fees charged, they are waived. In 1998, MHSC and its not-for-profit subsidiaries provided charity care in the amount of \$1,617,000.00, and in 1999,

\$2,228,000.00. (Applicant's Ex. No. 1 p. 30; Tr. pp. 17-19)

13. No charity care was given on the subject properties in 1998 because Morton Medpoint was not functioning. No charity care was given at Morton Medpointe in 1999. As of the date of the hearing, only \$70.00 worth of charity care has been given on the subject premises. Only one patient met the criteria. (Tr. pp. 18-19)

14. The for-profit subsidiaries of MHSC are: Provider Resource Management, Inc. (wholly owned by MHSC, provides advisory services to health care providers); Midwest Health Services, Inc. (wholly owned by the applicant, provides management services to health care providers); Heartland Home Health Care, Inc. (wholly owned by Midwest Health Services, Inc., provides in-home I.V. therapy, durable medical equipment, and operates a retail pharmacy); Ability Home Medical Equipment Co. (wholly owned by Heartland Home Health Care, Inc., provides durable medical equipment services in the home); and TLC Temporary Services, Inc. (wholly owned by Midwest Health Services, Inc., provides temporary nursing and other patient care services). (Applicant's Ex. No. 1 pp. 26-27)

15. I take administrative notice of the fact that Methodist Medical Center has been granted a property tax exemption for its hospital parking lot, at a different location, pursuant to Docket No. 86-72-1931.

16. I take administrative notice of the fact that the Department, pursuant to Docket Nos. 87-72-212, 95-62-7, 95-90-22, 96-72-39, and 98-72-19 has granted the applicant property tax exemptions for other properties.

17. The Department has also determined that the applicant qualifies for an exemption from sales tax as a charitable organization. (Applicant's Ex. No. 1 p. 56)

18. The applicant has been granted an exemption from Federal income tax pursuant to a determination that it qualifies under Section 501(c)(3) of the Internal Revenue Code. (Applicant's Ex. No. 1 pp. 54-55)

Conclusions of Law:

Article IX, §6 of the Illinois Constitution of 1970, provides in part as follows:

The General Assembly by law may exempt from taxation only the property of the State, units of local government and school districts and property used exclusively for agricultural and horticultural societies, and for school, religious, cemetery and charitable purposes.

This provision is not self-executing but merely authorizes the General Assembly to enact legislation that exempts property within the constitutional limitations imposed. City of Chicago v. Illinois Department of Revenue, 147 Ill.2d 484 (1992).

Pursuant to the constitutional grant of authority, the legislature has enacted provisions for property tax exemptions. At issue is the provision found at 35 ILCS 200/15-65, which exempts certain property from taxation as follows:

All property of the following is exempt when actually and exclusively used for charitable or beneficent purposes, and not leased or otherwise used with a view to profit:

- (a) Institutions of public charity.
- (b) Beneficent and charitable organizations incorporated in any state of the United States, . . .

Therefore, there is a two-part test for an organization to qualify for a charitable property tax exemption - ownership and use. Chicago Patrolmen's Ass'n v. Department of Revenue, 171 Ill.2d 263 (1996).

The Department has previously granted the applicant a property tax exemption; therefore, the Department has determined that it is a charitable organization. The applicant acquired the subject properties by a warranty deed, establishing that it owns the subject parcels. The applicant leases portions of its property to Methodist Medical Center of Illinois. The Department has also granted a property tax exemption to Methodist Medical Center, thereby finding that it is also an exempt organization.

Although the statute states that the property must not be leased or otherwise used with a view to profit, the Illinois Supreme Court in the case of Children's Development Center v. Olson, 52 Ill.2d 332 (1972), held that where one exempt entity leases property to another exempt entity, which uses said property for an exempt purpose, the lease will not be considered a lease for profit. I therefore find that the lease between the applicant and Methodist Medical Center of Illinois does not necessarily negate the applicant's ability to be granted the requested exemption. However, not only must an applicant prove that the property is owned by a charitable organization, the applicant must also show that the subject property is actually used for charitable purposes. Evangelical Hosp. Ass'n V. Novak, 125 Ill.App.3d 439 (2nd Dist. 1984)

Illinois courts have used the following definition of charity that was originally articulated in Crerar v. Williams, 145 Ill. 625 (1893):

... a charity is a gift to be applied consistently with existing laws, for the benefit of an indefinite number of persons, persuading them to an educational or religious conviction, for their general welfare - or in some way reducing the burdens of government. *Id.* at 643

The Illinois Supreme Court has effectuated this definition by observing that all institutions of public charity share the following distinctive characteristics:

The organization:

- 1) must benefit an indefinite number of persons, persuading them to an educational or religious conviction, for their general welfare-or in some way reduce the burdens of government;
- 2) must have no capital, capital stock, or shareholders and earn no profits or dividends;
- 3) must derive its funds mainly from public and private charity and hold such funds in trust for the objects and purposes expressed in their charters;
- 4) must dispense charity to all that need and apply for it, and must not provide gain or profit in a private sense to any person connected with

it; and,

- 5) must not place obstacles of any character in the way of those who need and would avail themselves of the charitable benefits dispensed; and
- 6) the term “exclusively used” means the primary purpose for which the property is used and not any secondary or incidental purpose. Methodist Old Peoples Home v. Korzen, 39 Ill.2d 149, 157 (1968) (hereinafter "Methodist Old Peoples Home").

Although the criteria cited in Methodist Old Peoples Home are not an exclusive rigid formula, they are guidelines that help to analyze whether an applicant is a charitable organization. Du Page Co. Bd. of Rev. v. Joint Comm'n, 274 Ill.App.3d 461 (2nd Dist. 1995) (*leave to appeal denied*, 164 Ill.2d 561)

In Wyndemere Retirement Community v. Department of Revenue, 274 Ill.App.3d 455 (2nd Dist. 1995, *rehearing denied; leave to appeal denied* 164 Ill.2d 585) the appellate court addressed the guidelines set forth in Methodist Old Peoples Home. The court found that the substantial fees charged by Wyndemere, the fact that it did not derive its funds mainly from public and private charity, and the fact that obstacles were placed in the way of those seeking charitable benefits precluded the court from granting Wyndemere a sales tax exemption as a charitable organization. The court stated:

Charging fees and rendering benefits to persons not poverty-stricken does not destroy the charitable nature of an organization, but this is only true to the extent that the organization also admits persons who need and seek the benefits offered but are unable to pay. (Small v. Pangle, 60 Ill.2d 510 (1975))

Additionally, we find that Wyndemere failed to show that obstacles would not be placed in the way of those seeking the charitable benefits or that the primary purpose for which the property is used is for charitable purposes. It is clear from the record that the primary purpose of Wyndemere is not to provide charity, but to provide a certain enhanced lifestyle to the elderly who can afford to pay for it. *Id.* at 460-61.

While the subject parcels involve a property tax exemption, rather than a sales tax exemption, and the property is used as a medical center, rather than a retirement village, the same principles and guidelines regarding the charitable exemption apply. Just as the applicant

herein, Wyndemere involved supplementary organizations. Wyndemere is a subsidiary of Central DuPage Health System, which is a 501(c)(3) charitable organization and exempt from sales, use, and real estate taxes as an organization operated exclusively for charitable purposes. *Id.* at 456. Although the parent corporation, Central DuPage Health System, was exempt from sales taxes, the court stated that Wyndemere itself needed to establish that it also met the criteria for charitable purposes. The court found that Wyndemere did not.

Although the applicant herein offered the charity care policy of Methodist Health Services Corporation, its parent corporation, it did not document or explain how that policy relates to the uses of the subject parcel². The applicant submitted the consolidated financial statements and details of consolidation for Methodist Health Services Corporation and Subsidiaries for the years ending December 31, 1998 and 1999³. As Methodist Health Services Corporation is comprised of both not-for-profit entities and for-profit entities, the consolidated financial statement offered nothing to substantiate charitable use on the subject properties.

It is well settled in Illinois that when a statute purports to grant an exemption from taxation, the tax exemption provision is to be construed strictly against the one who asserts the claim of exemption. International College of Surgeons v. Brenza, 8 Ill.2d 141 (1956) Whenever doubt arises, it is to be resolved against exemption and in favor of taxation. People ex. rel. Goodman v. University of Illinois Foundation, 388 Ill. 363 (1941). Further, in ascertaining whether or not a property is statutorily tax exempt, the burden of establishing the right to the exemption is on the one who claims the exemption. MacMurray College v. Wright, 38 Ill.2d 272 (1967)

Alivio Medical Center v. The Department of Revenue, 299 Ill.App.3d 647 (1st Dist. 1998)(*rehearing denied; leave to appeal denied*, 182 Ill.2d 547) involves a factual scenario very similar to the one before me. During the taxable year in question, Alivio employed staff

² The financial information submitted for the subject properties was a "profit/loss summary by practice" for Morton Medpointe for 1999. It shows total operating revenue of \$650, 295.00 and operating expenses of \$1,606,752 for a net loss of \$956,457.00. The operating expenses include such things as base salaries & wages, costs for services, costs for utilities, depreciation, and provisions for bad debt. (Applicant's Ex. No. 2)

³ Applicant's Ex. No. 1.

physicians that were not allowed to engage in competitive private practice, but were allowed to work at another clinic or hospital as well as at Alivio's Medical Center. Alivio estimated that approximately 25% of the medical bills for the physician's patients were written off as uncollectable. The source of 59% of Alivio's income was from patient fees. Alivio did not advertise that it provides charity care. The court held that Alivio Medical Center did not qualify for the charitable property tax exemption.

Within the consolidated financial statement submitted for Methodist Health Services Corporation and Subsidiaries is a section entitled "Details of Consolidation". The details depict the assets and expenses of Methodist Services Inc. (consolidated). The assets portion of the details section shows receivables of \$1,084,774 for "patient accounts receivable, net"; an amount of \$572,708 "due from affiliates"; and an amount for "other" of \$246,857 for total receivables of \$1,904,339. The applicant did not explain what entities Methodist Services Inc. (consolidated)⁴ was comprised of or how this information could help establish charitable use of the subject properties. However, the applicant did establish that the major source of income for the consolidated group was from patient fees, as occurred in Alivio.

The applicant herein submitted a drawing of the building on the subject premises. Identified in the drawing was the square footage of the exam rooms, the exam/stress test room, the lab. tech. room, and the X-ray room. For no other areas on the drawing was the square footage identified. The applicant stated that \$70.00 worth of charity care was given in 2000. However, none was given in 1998, the taxable year in question, and none was given in 1999. The applicant failed to establish what entity operating on the premises provided the \$70.00 worth of charity care in 2000. In addition, the charity care policy and guidelines appear to set an artificial limitation with the reliance on the federal income poverty guidelines. The applicant has not shown that the charity care policy is tied to an Illinois statute, poverty guideline, or any other such criteria, or that charity care is given to all that need and apply for it.

⁴ It is noted that Midwest Health Services, Inc. wholly owns Heartland Home Health Care, Inc., a for-profit corporation. The applicant wholly owns Midwest Health Services, Inc., another Illinois for-profit corporation.

The applicant testified that the family practice physicians employed by Methodist Medical Center used the exam rooms. The applicant failed to establish what kind of benevolent care was given in those areas, if any. The applicant failed to establish that any other areas of the building were used for exempt purposes.

The parent company of the applicant is Methodist Health Services Corporation. MHSC has subsidiaries that are both for-profit and not-for profit entities. By not providing sufficient information, the applicant fails to establish that the for-profit subsidiaries are not involved in the use of the subject parcels. As an example, one of the subsidiaries of MHSC is Heartland Home Health Care, Inc., a for-profit entity. Midwest Health Services, Inc. wholly owns Heartland Home Health Care, Inc. The applicant wholly owns Midwest Health Services Inc. The purpose of Heartland Home Health Care, Inc. is to provide in-home I.V. therapy and to operate a retail pharmacy. There is a drug store in Morton Medpointe. The applicant has neither established the dimensions of the drug store or how the drug store's use is charitable.

The lease between the applicant and Methodist Medical Center states that Methodist Outpatient Therapy Services used 897 square feet of the building, but the applicant has failed to establish what Methodist Outpatient Therapy Services is and how the 897 square feet is used. It is impossible to tell where that 897 square foot area is located. In addition, according to the lease the EEG/Sleep lab is located on 240 square feet of the building. The applicant testified that it is used for sleep studies but fails to show how that is a charitable use or where that area is located.

The applicant has failed to show the dimensions of areas in the building on the subject properties other than the exam, X-ray, and lab-tech. rooms. The lease shows 10,872 square feet leased to "MMCI-Morton Medpointe", 897 square feet leased to Methodist Outpatient Therapy Services, and 240 square feet leased to EEG/Sleep Lab. This equals 12,009 square feet, not the same number as 12,488 square feet of the building testified to by the applicant as in use at the time of the hearing.

In addition there are two large areas on the drawing that are entitled undeveloped. It is unclear what the dimensions are of those areas as well. The only thing certain is that they are

vacant. The Illinois Appellate Court found that a church owned building which was not used for any purpose and was boarded up during the taxable years in question did not qualify for a property tax exemption for those years. Antioch Missionary Baptist Church v. Rosewell, 119 Ill.App.3d 981 (1st Dist. 1983).

It is noted that Methodist Health Services corporation, applicant's parent-corporation and the sole member of the applicant, is made up of both for-profit and not-for-profit entities. The applicant agrees that a portion of the subject premises, the Physical Therapy Department, is not at issue because it is not used for exempt purposes. It is leased to Professional Therapy Services and Methodist Medical Center.

While the lease between the applicant and Methodist Medical Center does not necessarily negate the requested exemption, the burden is always on the applicant to show that the properties are in exempt ownership and use. The testimony and exhibits of the applicant are inadequate to make a determination that the building on the subject parcel was owned and used for charitable purposes in 1998.

It is therefore recommended Tazewell County Parcel Index Numbers 06-06-08-406-023 and 06-06-08-406-024 remain on the tax rolls for 1998 and be assessed to the applicant, the owner thereof.

Respectfully Submitted,

Barbara S. Rowe
Administrative Law Judge
November 2, 2001